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ABSTRACT

At Grand Valley State Colleges an early retirement program for faculty was proposed as a contingency plan for potential enrollment shifts or declines. In this analysis, as a preliminary to the institution of such a program, a number of questions are considered in detail: potential benefits; principles on which the institution should base the plan; eligibility; the option of phased retirement (the Dartmouth Plan); preretirement counseling; financial implications for the institution; and financial implications for the retiree. A bibliography is included. (MSE)

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THE FACULTY SALARY AND BUDGET COMMITTEE REPORT ON EARLY RETIREMENT

Prepared by the Early Retirement Subcommittee
Judith D. King, Chair

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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Submitted to the President,
Grand Valley State Colleges
February 28, 1977

The Faculty Salary and Budget Committee Report on Early Retirement

Judith D. King, Chair, Early Retirement Subcommittee

This report on early retirement was prepared in response to the President's request for an investigation into the ramifications of instituting an early retirement program at Grand Valley. The request was made in a memo on Contingency plans for Potential Enrollment Shifts and/or Declines. The Salary and Budget Committee appointed a subcommittee to look into the subject of early retirement.

The subcommittee first secured material about experiences of academic institutions which have early retirement programs. Information was obtained through a search of the literature, through lettersto institutions known to have early retirement programs, and from TIAA-CREF. Government pension plans such as civil service and the military plan were investigated but found not useful. The Salary and Budget Committee instructed the subcommittee to confer with the director of the Personnel Office to determine the feasibility of the subcommittee's recommendations in terms of financial implications. Appendix I, the Retirement Transition Benefit, is the draft plan proposed by the Director of the Personnel Office, August 3, 1976. This document is a report of findings rather than a proposal for adoption.

Potential Benefits of Early Retirement

1. Early retirement improves the faculty turnover rate, thus alleviating the problem of "tenuring in."

2. In event of reduction in staff, early retirement is a less painful way of reducing staff than involuntary separation.

3. Early retirement allows the institution to adapt faster to changes in demand for specific disciplines and makes possible flexible long-range staff planning.

4. Early retirement improves faculty morale by providing an option as to when to retire and by freeing tenure positions for junior faculty expecting academic promotion.

5. More generally, early retirement programs assist in reducing an oversupply of teaching personnel in the labor market as a whole.

6. Phased early retirement, based on a period of teaching part-time, provides a supply of adjunct professorships, which is an inexpensive method to enrich the curriculum.

7. Early retirement will be attractive to a professor who is "tired, bored, out of sympathy with changed conditions in academic life, or wants to take up a new career, pursue a hobby, or whatever." (Keast, et al.)

Principles upon which Grand Valley's Early Retirement Plan should be based

1. Early retirement is beneficial only when it is presented as an option.

2. An early retirement plan must be financially feasible for the faculty member to be successful. This principle implies that the post-65 retirement income (TIAA-CREF and Social Security) should be nearly as high for an early retiree as if he retired at 65, and that fringe benefits such as health and life insurance should be carried through the early retirement period.

3. Part-time options are an important part of the plan.

Eligibility: Age

Early retirement should be an available option to faculty as young as the college can afford, to increase faculty turnover at a maximum rate and to maximize the option. Since only 13% of our faculty are 50 years of age or older, the college can experimentally set the eligibility age lower than it might otherwise, because so few people would now be eligible. After a trial period in which eligibility starts at 50 or 55, the college can forecast costs more accurately in terms of the percentage of eligible faculty taking the option. Armed with this knowledge, the college can make a decision to keep the eligibility age the same or increase it.

Eligibility: Years of Service

A reasonable minimum number of years of service required at Grand Valley for eligibility in the early retirement program is ten, and a reasonable maximum is thirty, depending on the participant's age. The older the person is, the fewer years of service should be required; and conversely, the younger the person, the more years of service should be required. Therefore, a person with thirty years of service should be allowed into the program regardless of age and someone 60 years of age would only need ten years at Grand Valley to be eligible. The years of service should be adjusted downward for the first years of the program in recognition of the young age of Grand Valley as an institution.

Part-Time Options (Phased Retirement: The Dartmouth Plan)

A faculty member who has served fifteen years at Grand Valley (fewer than fifteen years until GVSC is an older institution) could elect phased retirement either at age 60 or at age 62, effective on July 1. For purposes of determining the benefits, the salary as of the July 1 when the option is selected will be considered the base salary. The percentage of salary to be paid in the phased retirement years (60-65 or 62-65) will be set at 45% (higher percentage until GVSC is an older institution) plus one percent for each year of service at Grand Valley. The maximum is set at 75% (for thirty or more years). Since eligibility requires at least fifteen years in the professional ranks, the minimum salary will be 60%

of the base salary. In addition, the college will contribute to TIAA-CREF 16% of the base salary in each of the remaining five or three years.

In exchange for the phased retirement benefit, Grand Valley would reduce the faculty member's obligations to the institution. For phased retirement at age 60, this reduction will be from five to two years. The required service may be performed in two years full-time service or in part-time service spread out over three years. For phased retirement at age 62, the faculty member would owe only one year of service to the institution, to be performed either in full-time stint or spread out over two years.

Under either option the other fringe benefits would continue until age 65. Faculty members would not be eligible for sabbatical leave after electing phased early retirement.

Phased retirement freely allows alternative careers, but if the combined earnings or fringe benefits from Grand Valley and the new employer exceed the base salary or the normal fringe benefits, the Grand Valley contribution will be reduced by half the excess. Income that faculty could normally earn while working for Grand Valley will not be counted as "additional earned income." Examples are consulting one day a week, directorships, royalties on books. New jobs or major new sources of income (e.g., expanded consulting work) would be counted.

Pre-Retirement Counseling Program

Periodic retirement counseling interviews should be arranged for all regular faculty members.

Financial Implications

Early retirement provides the possibility, if not the likelihood, of moderate financial savings to the institution. The savings should not be overestimated, because in order to make early retirement financially attractive to a faculty member, the institution will be paying faculty members a reduced salary during the early retirement years, will be making a contribution to TIAA-CREF so that the professors' post-65 income will be the same -- or practically the same -- as it would have been had they retired at 65, and probably will be paying a salary to younger (and thus less expensive) replacements. If the professor is not replaced, then savings will be real.

If the institution skimps on its financial package offered to encourage early retirement, it will run the risk of no takers. With an attractive financial package, the institution will break about even or pay out a little. Beloit estimates it costs them $300 per early retiree per year. Stanford's plan is estimated to cost 2% of the total outlay for faculty compensation. No college that the subcommittee knows of claims to have saved money on the program.

Cost-of-living increases loom as a large problem for the faculty member who is thinking about retiring. Inflation, rising property taxes, and the high cost of health care pose the largest threats. Such considerations make retiring professors leery of any plan, however attractive in its other aspects, which would diminish their retirement income.

Current Fringes

During early retirement period, the college would continue to contribute to TIAA-CREF to the extent necessary to make the TIAA-CREF accumulation almost as large at age 65 as it would have been, had the person continued working. This contribution could be made as a continuing contribution, as a lump sum premium, or larger contributions could be made in the years preceding early retirement. Health and life insurance should be continued through the early retirement period. Social Security contributions would be paid consistent with the law and the amount of early retirement salary.

Estimated Funds Available to Finance Early Retirement While Breaking Even

The variables which will determine the precise funds available for early retirement are many. It is possible, for instance, that the institution would hire a replacement for less than the average salary figure for assistant professors cited below, thus creating a larger difference than indicated here. This savings could be accomplished in several ways: 1) by hiring the replacement at an entry-level salary, 2) by reducing the full-time position to a part-time position, or 3) by eliminating the position entirely in response to curriculum changes. Despite such variables, the difference between the average compensation of assistant professors and full professors gives a reasonable estimation of the funds available to finance early retirement while breaking even.

1975-76 average compensation for full professor	$25,390
1975-76 average compensation for ass't. professor	17,361
Difference between the above figures	$ 8,029

Comparison of Annual Compensation from Various Plans

A hypothetical faculty member earning $20,000 salary, 60 years old with thirty years of service is the basis of the following comparisons. The compensation figures include salary, health insurance ($444), life insurance ($50), TIAA-CREF (10% of $20,000), and Social Security (5.85% of first $16,300). As a point of comparison between the hypothetical faculty member defined here and the average full professor, the average salary for a GVSC full professor in 1975-76 was $21,793.

Comparison of Annual Compensation..... (continued)

		ANNUAL SALARY	ANNUAL COMPENSATION
1.	TIAA-CREF Formula supplement related to salary and service (the formula which the Personnel Office costed out) supplemental yearly lifetime income equals 1/10 of 1% of current annual salary for each year of service x number of years between early retirement age and age 65		
	for $20,000 at 60 with 30 years	$ 3,000	$ 5,669.50
2.	GVSC Personnel Office retirement transition benefit 30% of $19,000	5,700	8,527.45
3.	Michigan Retirement Plan (our first choice)		
	Average of best five years salary - $18,643 1% of first $4,200 — 42 1-1/2% of remainder — 216 Total — 258 Total x years service — x 30	7,740	10,686.79
4.	Beloit 50% of current annual salary for over 20 years of service	10,000	13,079.00
5.	Dartmouth Flexible Retirement Option at 60 (our part-time option) (calculated on two years' work in the early retirement period)		
	45% of current annual salary + 1% for each year of service = 75% of $20,000	15,000	18,371.50

Comparison of Annual Income from the Five Plans

This comparison is based on the data set forth above in the Comparison of Annual Compensation from Various Plans.

For the computation of Social Security benefits, it is further assumed that the retiring faculty member is married and the spouse is 58 years old. The Social Security figures are as of January 1977 and are tied to inflation. They are based on the assumption that the faculty member has paid the maximum FICA (Social Security) since 1951.

For the computation of TIAA-CREF benefits, it is also assumed that the retiring faculty member is male and started with TIAA in 1951. When CREF was introduced in July 1952, the faculty member split his premium 50% TIAA, 50% CREF. His salary in 1951 was $4,000. His institution contributed 10% of his salary; he contributed an additional 5% of his salary. If he had not contributed an additional 5% of his salary, the single annuity income figure would be $4,966 instead of the $7,450 used in the following table.

	Salary	Salary + TIAA-CREF at age 60	Salary + Social Security at age 62	Salary + Social Security two years later (spouse attains age 62)	Salary + Social Security + TIAA CREF at age 62
1.	$ 3,000[1]	$ 3,000 7,450 $10,450	$ 3,000 3,960 $ 6,960	$ 6,960 1,860 $ 8,820	$ 6,960 7,450 $14,410
2.	$ 5,700[2]	5,700 7,450 $13,150	5,700 3,960 $ 9,660	9,660 1,860 $11,520	9,660 7,450 $17,110
3.	$ 7,740[2]	7,740 7,450 $15,190	7,740 3,960 $11,700	11,700 1,860 $13,560	11,700 7,450 $19,150
4.	$10,000[2]	10,000 7,450 $17,450	10,000 3,960 $13,960	13,960 1,860 $15,820	13,960 7,450 $21,410
5.	$15,000[2]	N.A.	15,000 3,960 $18,960	18,960 1,860 $20,820	18,960 7,450 $26,410

[1] Lifetime

[2] To age 65 only

At age 65, the participant will become a regular retiree and draw from TIAA-CREF. Faculty can start drawing on TIAA-CREF before age 65 at reduced rates, if desired. This option is illustrated in the second column of the table above.

From age 62 on, the early retiree has the option of drawing on Social Security. The amount will be 20% less starting at age 62 than if starting at age 65. This option is illustrated in the third column above.

While the Salary and Budget Committee has concluded that an early retirement program modeled on the above report would be both a desirable component of a contingency plan for potential enrollment shifts and/or declines and a desirable fringe benefit, the Committee reserves its endorsement of an early retirement program until such time as it can review the early retirement fringe benefit

in the context of other possible fringe benefits. This reservation is made in recognition that an early retirement program will cost compensation dollars.

Judith D. King
for the Committee

Appendix I

Retirement Transition Benefit

The Subcommittee proposed using the formula for the Michigan retirement program (see page 5, #3). The Subcommittee still believes that the formula yields a more realistic income for the retiring professor, but the Personnel Office assured us that the cost to GVSC makes the formula unacceptable. The director of Personnel suggested the following formula:

> Participation may begin at the start of the academic year in which the faculty member with twenty years of full-time service attains the age of not less than 60 years. The amount of the benefit shall be calculated on the basis of the average of base academic year salaries in the three years prior to participation in the benefit, plus the normal college contribution to the faculty member's retirement contract. The total amount to be paid to the participant shall be determined on the following basis:
>
> > 50% of average base academic year salary, plus retirement contribution, for the year in which the participant reaches age 60;
> >
> > 40% of average base academic year salary, plus retirement contribution, for the year in which the participant reaches age 61;
> >
> > 30% of average base academic year salary, plus retirement contribution, for the year in which the participant reaches age 62;
> >
> > 20% of average base academic year salary, plus retirement contribution, for the year in which the participant reaches age 63;
> >
> > 10% of average base academic year salary, plus retirement contribution, for the year in which the participant reaches age 64;

to be split into annual installments, correspondent to the number of years in which the faculty member participates. This formula results in the following percentage equivalents for participants who start the benefit at the respective ages shown:

Age at Start	% of average base academic year salary Plus retirement contribution
60	30%
61	25%
62	20%
63	15%
64	10%

Appendix II

As a result of exploration and thinking about early retirement, there are two suggested fringe benefit ideas which might both enhance regular faculty well-being and make the prospects of early retirement more desirable.

The first is an annual physical examination to be strongly urged and supported by the colleges. The committee feels that this is considered by many businesses and colleges as a long-term economy as preventive medicine.

The second would be to continue full medical coverage through regular retirement. If started now, when only a few faculty are nearing retirement age, the expense to the college would be minimal. In addition, the post-65 costs can be furnished as supplementary to medicaid. One of the common fears of retirees and of potential early retirees appears to be the prospect of devastating medical expenses.

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